417183

Torday & Carlisle PLC

Annual Report and Accounts

2003

Contents

Torday & Carlisle PLC

Group Profile

The Group's businesses comprise:

SOLVITOL – formulated chemicals for household, industry and automotive aftercare
Managing Director : Rod Godwin
Solvitol is based in Birtley, County Durham, and also has office and warehouse premises in Doncaster, South Yorkshire (Intro). The company offers a range of formulated chemical products, including paints, lubricants, cleaning agents and automotive care products. Solvitol markets a range of branded products under its own name and also Nilco, Quickline, Planet Earth and Add-It, which are sold directly to end users.
In addition, the company offers a private label service to resellers and marketeers. Solvitol operates in a large and fragmented market. Its main markets are household, industrial and commercial maintenance, metal working, hygiene (personal and premises) and automotive aftercare. The current annual processing capacity is 13 million aerosols and 5,000 tonnes of bulk chemicals.

E WOOD – specialist surface coatings manufacturer
Managing Director : Chris McDonnell
E Wood is based in Northallerton, North Yorkshire. Building on its technological strength the company provides products for major worldwide industries such as oil, gas and water pipelines, road and rail transport, fire protection, industrial corrosion and OEM applications. The company uses epoxy, acrylic, polyurethane and polymeric formulations. Products manufactured include a range of high integrity surface protection coatings, branded Copon and Thortex. Copon products are focused on OEM applications, such as pipe coating and transport finishing. Thortex is focused towards the industrial repairs and refurbishment market.

LINCOLN DIESELS – (50% owned) diesel engine refurbishment
Lincoln Diesels (LD Group) services and repairs medium and high speed diesel engine components from its site in Lincoln. The company has annual sales of approximately £5 million and employs 50 people.

GROUP DIRECTORY

Solvitol
Shadon Way
Portobello Industrial Estate
Birtley
County Durham
DH3 2RE

Tel : 0191 410 9131
Fax : 0191 492 0503
www.solvitol.com

E Wood
Standard Way
Darlington Road
Northallerton
North Yorkshire
DL6 2XA

Tel : 01609 780 170
Fax : 01609 780 438
www.ewood.co.uk

Lincoln Diesels
Great Northern Terrace
Lincoln
LN5 8HJ

Tel : 01522 511 512
Fax : 01522 512 935
www.lincolndiesels.com

Overview
This has been a year of continued progress for our group. Overall, the pre-exceptional operating profit before amortisation from our two core subsidiaries, E Wood and Solvitol, plus our 50% associate, The LD Group (LD), has increased by some 34% to £1.944 million (2002: £1.453 million). Total operating profit has increased by 92% to £1.846 million (2002: £0.961million). A proforma results analysis is included in the financial review on page 5.

Results, trends and dividends
In summary:

- E Wood achieved record results with operating profits of £2.953 million (2002: £2.185 million) on a turnover of £20.862 million (2002: £20.073 million). This reflects the further success of the high performance Copon products and worldwide export of Thortex maintenance products.

- Solvitol has had a disappointing year with an operating loss before amortisation of £0.265 million (2002: £0.096 million) on a turnover of £11.745 million (2002: £9.761 million). Consequently, in December 2003, we began the implementation of a far reaching programme to re-orientate its brand and customer strategy and to significantly reduce its cost structure. This process is ongoing and we expect to see an improvement in results in due course.

The share buyback programme has continued to reduce the number of shares in issue. This, in combination with the improved total operating profits of the group, means that the directors are recommending the payment of an increased final dividend of 1 pence per share (2002: 0.6 pence) which will be paid on 21 May 2004 to shareholders on the register on 30 April 2004.

Looking back over 4 years
Torday & Carlisle merged with Meristem plc in March 2000. At the time of the merger, the mid market price of the Torday & Carlisle shares issued in consideration was 21.0 pence compared to the mid-market price on the day prior to this report of 73.5 pence. Since many of our shareholders joined us at the merger it is appropriate to look back and see what has been achieved in an active and successful period.

(i) Trading progress

Since the Meristem merger, the group has worked hard to improve the trading results of each division, including those businesses subsequently disposed of such as CSM, further details of which are set out below.

Most important has been the progress during this four year period of E Wood and Solvitol, the two core subsidiaries retained from Meristem. In the year ended 31 December 1999, just prior to the merger, E Wood reported an operating profit of £1.314 million, and, four years later this has grown to £2.953 million. This impressive performance has been achieved in relatively difficult market conditions and I know all shareholders will join us in congratulating Chris McDonnell and his key management team (many of whom have been with the Company since its original management buyout in 1988) for the focus, foresight and determination which have delivered these results.

The progress of Solvitol has been much slower. The reported operating loss before amortisation for the year ended 31 December 1999 was £0.349 million which has been reduced in 2003 to a loss before amortisation of £0.265 million. The difficulties experienced at Solvitol and our response to them are explained later in this report.

At the time of the Meristem merger, central costs for the combined companies were running at a pro-forma annualised rate of some £0.902 million; in 2003 we reduced these to £0.641 million (excluding one-off severance costs of £90,000) and our target is to make a significant further reduction this year.

(ii) Corporate actions

- In October 2001, the original Torday & Carlisle diesel marine business, DMI, was sold, with net proceeds received of £6.68 million. With the exception of our 50% associate holding in LD, this disposal successfully exited the group from the low value engineering sector.

- In May 2002, CSM, the mineral processing company acquired on the merger with Meristem, was sold for net proceeds of £10.1 million.

- During 2002, the group was also able to settle and clear some inherited and significant contingent liabilities including the section 338 tax claim made against Meristem (at a cost of £550,000) and an onerous lease on the Wembley property from a previous business of Torday & Carlisle (at a cost of £615,000).

(iii) Capital reduction and share buybacks

In 2000, following the Meristem merger, there were approximately 63.5million Torday & Carlisle shares in issue. The proceeds from the disposals programme and cash flow from our remaining activities have enabled us, by a combination of share buybacks and the November 2002 capital reduction, to return to shareholders a total of approximately £13 million in cash, thus reducing the number of shares in issue to approximately 16.9 million at December 2003.

Future strategy and objectives

We remain faithful to our objective of optimising the medium term performance and value of the group's two core businesses, E Wood and Solvitol, and believe that it should continue to be possible to enhance shareholder value as it has been in the past. Your directors are significant shareholders in the Company and therefore have a very close alignment with the financial interests of all shareholders.

We will continue to maintain an active share buyback programme where we are satisfied that this will enhance the returns and benefits for shareholders generally. Under the current authority, approved by shareholders at the 2003 AGM, we are able to buyback for cancellation up to a further 2.23 million ordinary shares. It is our intention to propose a further buyback authority at the next AGM.

Although in the medium term, shareholder value may be enhanced as in the past, by the disposal of businesses, we do not currently have specific exit plans for any parts of the group. There are a range of development possibilities for each of the group's businesses. Currently we believe that the group's tax structure, incorporating as it does the availability of some past losses, together with our lower level of central costs, give us a favourable financial foundation to hold our subsidiaries whilst further developing value. We will nonetheless be open and alert to consolidation opportunities in our industries if it appears to be in shareholders' interests to do so.

E Wood – specialist surface coatings

The past year showed record results, with sales growing to £20.862 million (2002: £20.073 million) and enhanced operating profit of £2.953 million (2002: £2.185 million). These results included record sales for our Copon pipe lining products for the water industry, and also our Thortex maintenance products in export markets – particularly in the USA where Thortex America Inc. enjoyed strong demand for infrastructure projects. International oil and gas pipeline demand for Copon continued at a high level, and our Thortex UK maintenance division enjoyed its best year for some time, reflecting the high level of building and infrastructure work presently taking place in the UK. However Copon products for UK OEMs showed some decline in line with the continued downtrend in UK manufacturing industry.

Two of the demonstrated strengths of E Wood over the years have been the wide spread of our product offerings over our five key market and brand sectors, and the strong export performance where, in a typical year, over 50% of our sales go overseas, spread across some 69 different countries. Underpinning this achievement is the high performance nature of our products based on a serious financial commitment to research, development and product innovation. These are particularly relevant for our activities in the water and fire industry where, in the short term, we are targeting increased penetration of the UK market, and in the medium term, overseas. Specifically, we are also committing increased resource into further development of the North American market. To date, for the current year, the oil and gas markets continue to show healthy demand, and with the strong balance of our other activities we are cautiously optimistic that we can show further growth in what remain highly competitive markets.

Solvitol – formulated chemicals for household, industry and automotive aftercare

With sales increasing to £11.745 million in 2003 (2002: £9.761 million), the results as a whole were disappointing, with the operating loss before amortisation increasing to £0.265 million (2002: £0.096 million). The 2003 loss reflects redundancy costs of £83,000 and increased stock provisions and insurance costs of £151,000. Difficulties in our private label contracts, due to lower than expected demand and manufacturing issues, led to margin pressure and a decision to reduce the small run, private label work, with resulting stock provisions. There were, however, bright spots in the year with the sales of our newly acquired NILCO household products exceeding £1 million and continued strong performance from our Intro automotive division with its ADD-IT brand.

We remain committed to the turn round of the Solvitol business and believe that with the correct actions, a business recording sales in excess of £10 million with strong brands and product performance, should be a positive asset to the group. To that end, the following steps are being taken :

- A phased reduction in the product range to simplify manufacturing and procurement. This will regrettably result in a further reduction in employee numbers.

- An increasing focus on growing sales from the further development of our own brands, (including NILCO, SOLVITOL, QUICKLINE and ADD-IT) which currently only account for around 27% of sales. Our target is that over time these brands should account for approximately 50% of the business, with the other half devoted to our best private label customers and products. The development of our own brands, which generally have better margins, has many other advantages including simplifying production forecasting, allowing more economic manufacturing batches and, in the medium term, building business value based on repeat sales and thus reducing the volatility of private label contracts.

- Separately we are developing the PLANET EARTH brand, which is a range of toiletries and household products. This is a medium term programme designed to add value to our brand portfolio without distracting from the managerial tasks of improving the core business.
- The strengthening of our financial and operational management, a process which has already been started. New experienced management has been engaged to assist Rod Godwin and his team in achieving these necessary objectives.

Shareholders will understand that we are cautious in predicting how long this process will take but we are determined to improve the value of the Solvitol business.

LD Group – diesel engine refurbishment
LD, our 50% associate, experienced difficult trading conditions throughout the year, contributing a net loss to these results of £13,000 (2002: profit of £56,000). In the traditional spare parts market, the OEMs squeezed margins in a reducing market and there was lower demand for our repair and re-conditioning services. A number of measures have been taken to reduce overheads, including the closure of the Peterhead facility. The strategy for this business is to continue to sell into the spare parts market and to increase our presence in the after sales market by selling to large blue chip customers the broad range of repair and maintenance skills which exist within LD. We do not view our holding in LD, which has a book value of £116,000, as a long term core activity.

Management and employees
On behalf of the Board and shareholders I express appreciation and thanks to all our employees for what has been achieved in 2003 and for their determination and tenacity in addressing the challenges and targets during the current year.

We referred above to the aim of continuing to reduce our central costs and this will be reflected in part by the reduced time and salary levels in running a less complex group. We are also, with our advisers, reviewing the introduction for senior management of medium term incentive arrangements based on increases in shareholder value. Where appropriate details of these arrangements will be submitted for approval to shareholders.

Outlook
We will continue to focus on achieving further progress and value enhancing developments in our two core subsidiaries.

James Leek
Chairman
12 March 2004

Events subsequent to the approval of the 2003 accounts

This information does not form part of the audited accounts and, therefore, does not fall within the scope of the independent auditor's report.

Following both the Preliminary Announcement and the approval of these accounts, the Company has subsequently announced the following events and these are included here for completeness.

- On the 12 March 2004, the Company purchased for cancellation 2,200,000 ordinary 5 pence shares at a price of 77.6 pence per share. Following the cancellation of these shares, the issued share capital is 14,838,524 ordinary shares;
- V & P Midlands Limited ("V&P") notified the Company that on 12 March 2004, it sold its entire holding of 4,666,846 ordinary 5 pence shares in the Company representing approximately 27.39% of the issued share capital before the buy back and cancellation detailed above;
- Jack Farley, who represented the interests of V & P, and Peter Scott resigned as non-executive directors of the Company. The Board thanks Mr Farley and Mr Scott for their wise counsel and advice and contribution to the successful development of the Company;
- Mr R F M Adair notified the Company that a number of trusts in which he had a beneficial interest had purchased 1,000,000 ordinary 5 pence shares, taking the number of shares in which Mr Adair is interested to 2,265,544 representing approximately 15.27% of the issued share capital following the share buy back and cancellation detailed above;
- Mr E Bor notified the Company that, following a purchase of 1,466,846 ordinary 5 pence shares, he had a beneficial interest in 1,616,846 ordinary 5 pence shares representing approximately 10.90% of the issued share capital following the share buy back and cancellation detailed above.

The above share buy back used the authority given by shareholders at the 2003 AGM. The Company's strategy continues to be to buy back shares where we consider shareholder value will be enhanced. Consequently, the Company has sent to shareholders with this Report, the 2004 notice of AGM which seeks approval in resolution 8 for a new share buy back authority.

Following the director resignations referred to above, Magnus Mowat is now the Chairman of both the Audit and Remuneration Committees. Mr Mowat's term of appointment has been extended to 14 March 2005.

Analysis of performance

The following proforma analysis of the Group's trading results is provided to help shareholders understand the components of the Group operating profit before exceptional items during the year and the comparison with 2002.

Note: This proforma information is unaudited and provided for illustrative purposes only. Reference should be made to the Group consolidated profit and loss account for the Group's actual performance for the year ended 31 December 2003.

PROFORMA ANALYSIS 2003

	2003 H1 £000	**2003 H2 £000**	**2003 Full Year £000**	2002 H1 £000	2002 H2 £000	2002 Full Year £000
Continuing operations:						
E Wood	**1219**	**1,734**	**2,953**	1,052	1,133	2,185
Solvitol/Intro	**113**	**(378)**	**(265)**	18	(114)	(96)
LD Group (Associate)	**71**	**(84)**	**(13)**	19	37	56
Sub Total	**1,403**	**1,272**	**2,675**	1,089	1,056	2,145
Head Office costs (see note)	**(459)**	**(272)**	**(731)**	(355)	(337)	(692)
Total continuing operations proforma operating profit (before exceptionals and goodwill amortisation)	**944**	**1,000**	**1,944**	734	719	1,453
Amortisation of goodwill						
Nilco (Solvitol business)	**(85)**	**(85)**	**(170)**	-	-	-
Meristem (Head Office)	**35**	**37**	**72**	34	35	69
Total continuing operations proforma operating profit (before exceptionals)	**894**	**952**	**1,846**	768	754	1,522
Discontinued operations:						
Colin Stewart Minchem (sold 23 May 2002)	-	-	-	849	-	849
Total discontinued operations proforma operating profit (before exceptionals)	-	-	-	849	-	849
Total operating profit before exceptionals	**894**	**952**	**1,846**	1,617	754	2,371
Exceptional expenses	-	-	-	(690)	(720)	(1,410)
Profit on sale of operations	-	-	-	1,638	-	1,638
Profit on ordinary activities before interest and taxation	**894**	**952**	**1,846**	2,565	34	2,599

Note : Head Office costs for 2003 H1 include £90,000 paid on the termination of Roger Queen's employment at the end of June 2003.

Cash flow and borrowings

We started the year with net borrowings of £1.787 million and at 31 December 2003 had net borrowings of £2.381 million, representing an increase in debt of £594,000 and gearing of 34%. The level of profit on ordinary activities before interest and tax is sufficient to give interest cover of 6 times (2002: 19 times). The following table illustrates the impact of our corporate actions combined with the cash generated from normal trading across the group's operations:-

	£000
Net debt at 1 January 2003	(1,787)
Ordinary shares bought back	(2,272)
Dividends paid	(104)
Cash inflow from operations	1,782
Net debt at 31 December 2003	(2,381)

We have continued our share buyback policy with a view to providing an exit for shareholders wishing to sell their investment. During 2003, the group bought back 5,630,241 shares at an average price of 40 pence, at a total cost (including expenses) of £2.272 million.

Dividend

A final dividend of 1.0p per share has been proposed and will be paid on 21 May 2004 to all shareholders on the share register at 30 April 2004. The total dividend payable relating to 2003 is £169,000.

Net assets and shareholders' funds

Net assets in the year fell from £8.207 million to £7.220 million, which is explained below:

	£000
Net assets at 1 January 2003	8,207
Profit for the year after dividends	1,254
Ordinary shares bought back	(2,272)
Other	31
Net assets at 31 December 2003	7,220
Minority interest at 31 December 2003	(164)
Equity shareholders' funds at 31 December 2003	7,056

At 31 December 2003 net operating assets by operating subsidiary comprised:

	£000
E Wood – specialist surface coatings	5,341
Solvitol – formulated chemicals	5,063
Investment in LD Group (50% owned)	116
Sub total	10,520
Central net liabilities	(919)
Net debt	(2,381)
Net assets	7,220
Minority interest	(164)
Equity shareholders' funds	7,056

The net assets per share (after minority interest) are 42p, based on 16,927,524 shares in issue at 31 December 2003.

Taxation

The taxation charge of £10,000 during the year comprised the group's share of the tax charge in LD Group, which is a 50% owned associated company. The group has losses allowable for tax purposes of approximately £5 million, which are available to offset against future profits over a period of years. In addition there are capital losses of £58 million.

Tony Morley
Finance Director
12 March 2004

Directors and Advisors

JAMES LEEK (59) **
Executive Chairman
Appointed April 1998. Chartered Accountant, currently Non-Executive Director of Exeter Selected Assets Investment Trust plc, the Pennine AIM VCTs and Leisure & Media VCT. Formerly Chief Executive of Caparo Group Limited (1975-1994).

CHRIS McDONNELL (61)
Executive Director
Appointed January 2003. He was formerly a Director of Belzona and joined E Wood in 1984 as Managing Director leading a Management Buyout in 1988. He remained as Managing Director of E Wood after the purchase by Meristem plc in 1995.

TONY MORLEY (44)
Finance Director
Chartered Management Accountant.
Joined E Wood as Finance Director in May 2000 and was appointed to the Torday & Carlisle Board in July 2003. Previously he was Finance Director of Premier Fresh Foods Ltd and held finance positions in Nestlé and Hillsdown Holdings.

JACK FARLEY (68) **
Non-Executive Director
Appointed April 1997. Consultant with Wacks Caller, solicitors. Represents the interests of V&P Midlands Limited, which holds 27.9% of the issued shares of the Company.

MAGNUS MOWAT (63) **
Senior Independent Director
Chartered Accountant.
Appointed March 2000. He was formerly a Director of Meristem plc and BZW Limited, and is a Non-Executive Director of Royal Doulton plc and a number of other companies.

PETER SCOTT (64) *
Non-Executive Director
Appointed January 2002. He is an Executive Director of Harrogate Group, an AIM quoted plc.

* Member of the Audit Committee
** Member of the Remuneration Committee and Audit Committee

RICHARD MACKNESS
Company Secretary
He is a qualified solicitor, having worked previously at Procter & Gamble Limited and as Company Secretary of Meristem plc.

Registrars
Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Nominated Adviser
Altium Capital Limited Corporate Finance
5 Ralli Court, West Riverside
Manchester M3 5FT

Brokers
Bell Lawrie White & Co.
48 St Vincent Street
Glasgow G2 5TS

Independent Auditors
KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne NE1 3DX

Principal Bankers
Barclays Bank PLC
71 Grey Street
Newcastle upon Tyne NE99 1JP

HSBC Bank plc
110 Grey Street
Newcastle upon Tyne NE1 6JG

Solicitors
Hammonds
2 Park Lane
Leeds LS3 1ES

The Company's shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Company is registered in England, number 417183

Registered Office
Unit 1
Mile House Business Park
Darlington Road
Northallerton
North Yorkshire DL6 2NW

Tel: 01609 788716
Fax: 01609 761040

Group activities
Torday & Carlisle PLC is a holding company which owns strategic investments in under-valued businesses as a means of actively developing and enhancing shareholder value.

At 31 December 2003, the Company held:

- A 100% holding in Meristem plc, a holding company for companies involved in the manufacture and sale of specialised coatings and formulated chemicals.
- A 50% holding in The LD Group PLC which is involved in the maintenance, refurbishment and rebuilding of industrial and marine diesel engines.

A review of the group's activities during the year, with comments on the financial results and future developments is contained in the Chairman's Statement and the Financial Review on pages 2 to 6 which form part of this report.

Results and dividends
The consolidated profit and loss account is set out on page 15. Further analysis of the turnover and results of the group are given in note 2 on pages 21 to 22.

The directors recommend a full year dividend of 1p per share (2002: 0.6p) to be paid on 21 May 2004 to shareholders on the register on 30 April 2004. The shares will be ex-dividend on 28 April 2004.

Directors
The current directors of the Company and their biographies are set out on page 7. Roger Queen left the Board on 2 July 2003. In accordance with the Articles of Association, Tony Morley, who was appointed a director on 2 July 2003, retires at the forthcoming Annual General Meeting and will be proposed for re-election. Jack Farley and Magnus Mowat retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' interests
The interests of the directors in the shares of the Company at 31 December 2003 were :

	Nature of Interest	*31 December 2003*	*1 January 2003 or Date of Appointment*
James Leek	Beneficial	1,748,823	1,748,823
Jack Farley	-	Nil	Nil
Chris McDonnell	Beneficial	1,483,153	983,153
Tony Morley	Beneficial	25,000	Nil
Magnus Mowat	Beneficial	130,253	130,253
Peter Scott	Beneficial	291,853	269,353

James Leek is a beneficiary with others under the will of his late mother whose estate includes 275,530 ordinary shares in the Company. These shares are not included in the above figures.

Details of directors' share options are set out in the Remuneration Report on page 12.

None of the directors had or has a material interest in any contract significant to the group's business. There has been no change in these interests from 31 December 2003 up to the date of this report.

Significant shareholdings
At 12 March 2004, excluding the shareholdings of the directors, the Company had been notified or was aware of the following shareholders of 3% or more in the issued share capital of the Company:

Shareholder	Number of ordinary shares held	% of issued share capital
V & P Midlands Limited	4,666,846	27.39
R F M Adair	1,165,544	6.84

Share capital

During the year and up to the date of this report, the Company made the following purchases of its own shares. Each share purchased had a nominal value of 5p and all the shares purchased have been cancelled.

Date	Number of shares purchased	Price in pence per share
14 March 2003	5,269,743	39.50
6 October 2003	360,498	45.00

The shares purchased represented 24.96% of the issued share capital on 1 January 2003 and the total cost excluding stamp duty and commissions was £2.244 million. At the date of this report, the Company has authority to purchase for cancellation up to 2,230,976 of its own shares.

Research and development

The group's research and development activities are directed towards the improvement of existing production processes.

Employee involvement

The directors attach importance to employee involvement, and financial and commercial information is made available to all employees. The decentralised nature of the group necessitates that the detailed application of this policy is the responsibility of local management.

Equal opportunities

The group's policy is to offer equal opportunities to all, regardless of race, colour, nationality, ethnic origin, sex, marriage, disability or age. All applicants and employees are treated equally in respect of recruitment, promotion, training, pay and other employment terms and conditions. Applications for employment by disabled persons are always fully considered bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event that an employee becomes disabled during employment, every effort is made, including appropriate training, to ensure that employment with the group can continue.

Supplier payment policy

The group does not operate a defined code of practice regarding payment to suppliers. The operating subsidiaries determine conditions of payment for their own supply of goods and services. It is the group's policy that transactions are then settled in compliance with these legal or other contractual obligations having regard to good commercial practice. Average creditor days at 31 December 2003 for the group were 67 (2002: 74). It is not meaningful to disclose a similar statistic for the Company since it does not trade in its own right.

Donations

During the year, the group made no political or charitable donations. (2002: £nil).

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and group and of the profit and loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditors

The usual resolution to re-appoint KPMG Audit Plc as independent auditors and to authorise the directors to agree their remuneration will be proposed at the AGM.

By order of the Board
Richard Mackness
Secretary
12 March 2004

The Company is listed on the Alternative Investment Market and accordingly is not required to comply with the Combined Code on Corporate Governance ("the Combined Code"). The directors are committed to the principle of effective corporate governance, support the principles contained in the Combined Code and apply these where they consider it appropriate to the Company. The following report describes how the directors have addressed corporate governance in the year ended 31 December 2003.

The Board

The Board comprises three executive and three non-executive directors. Magnus Mowat is the senior independent director. Neither Jack Farley nor Peter Scott is independent by virtue of their representing a major shareholder. The Board meets, usually monthly, either in person or by telephone to set and monitor strategy, review trading performance and formulate policy on key issues. Information of an appropriate quality is supplied in a timely manner to assist the directors to perform their duties in an appropriate manner. In addition, Board members have regular informal contact with each other.

The posts of Chairman and Chief Executive are not separate. The Board does not believe that, at the current size of the business, a division of these roles is necessary at the present time but will keep the position under review.

All directors have access to the advice and services of the Company Secretary who administers the Board and Board Committee meetings and ensures that relevant procedures and regulations are followed. The Board has agreed that any director may obtain independent professional advice at the Company's expense, in furtherance of their duties. Where it is considered appropriate, training is made available to the directors.

Under the Company's Articles, the nearest number to one third of the Board retires each year by rotation. All directors are required to offer themselves for re-election at least every three years.

Details of directors' contracts are included in the Remuneration Report on pages 12 and 13.

Board Committees

The Board has constituted itself as the Nominations Committee chaired by James Leek, and reviews the structure, size and composition of the Board and the management organisation. The committee considered and agreed the appointment of Tony Morley as Finance Director in succession to Roger Queen.

The Audit Committee is chaired by Magnus Mowat with Jack Farley, James Leek and Peter Scott as the other members. The other executive directors usually attend meetings by invitation. The committee meets twice a year prior to the release of the full and half year results and on other occasions as appropriate. The committee reviews reports from the external auditors, considers the appropriateness of the group's financial and accounting policies and ensures that an objective and professional relationship is maintained with the external auditors. At each audit committee meeting an opportunity exists for the external auditors to meet the non-executive directors without executive directors being present.

The Remuneration Committee ensures the executive directors and senior managers are appropriately rewarded. It is chaired by Jack Farley with Magnus Mowat and James Leek as the other members. James Leek does not participate in discussions about his own position

Relations with shareholders

The Board seeks to maintain a good relationship with shareholders. This is achieved through the annual and interim reports and the AGM. In addition, shareholders can access the subsidiary company web sites to obtain information on the products made and sold by the group. Meetings take place during the year with major shareholders outside close periods. The AGM provides the principal forum for communication with private shareholders. All directors attend the AGM and are available to answer questions.

We endeavour to give at least 20 working days notice of the AGM and the results of proxy votes are declared at the meeting.

Internal Controls

The Board is responsible for establishing and maintaining the group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has in place a framework to identify and monitor risks but has not carried out a formal detailed risk assessment for each of its businesses nor carried out formal monitoring to ensure controls are in place to mitigate risks arising from the group's operations. The Board does monitor performance including the management of risk of group businesses very closely by attendance at subsidiary board meetings by the executive directors and a review of individual business performance and strategy at group Board meetings. The following procedures have been established to provide an effective control framework:

a) A comprehensive budgeting system with an annual budget approved by the Board.
b) Monthly reporting of actual results and cash flows with comparisons to original budget and updated forecasts.
c) Clearly laid down authorisation levels for all types of expenditure and financial commitments.
d) The definition of a recognised organisation and management structure within which individual executive directors have responsibility for the day to day management of the business.
e) Completion of half yearly financial control self-certification questionnaires by subsidiary executive management, which are reviewed by the group Board.
f) A review of business risks is performed by the Finance Director through discussions with operating subsidiary management. This aims to identify and address risk areas in the businesses.
g) Key areas such as legal matters and assessment of tax implications are managed centrally.

The Audit Committee overviews the monitoring of the adequacy of the group's internal financial control procedures, accounting policies and financial reporting. It has considered the major business and financial risks, the control environment and information on and arising from the procedures detailed above.

The directors have considered the establishment of an Internal Audit function. At present they do not consider it appropriate but will keep the matter under review.

Going Concern

The directors have a reasonable expectation that both the Company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Remuneration Report

As an AIM listed company, the Directors' Remuneration Report Regulations 2002 do not apply to the Company and the Remuneration Committee makes the following report:

Remuneration Committee

The Remuneration Committee during the year comprised Jack Farley (Chairman), Magnus Mowat and James Leek. None has any personal financial interest other than as a shareholder and in respect of the fees paid to them and, in the case of Mr Leek, the salary paid to him.

The committee determines the overall remuneration policy for executive directors and has delegated responsibility from the Board for setting the remuneration packages of individual executive directors and the senior executive group management. James Leek does not participate in the consideration of his own position.

The committee is authorised by the Board to obtain any outside professional advice about remuneration matters but has not during the year found it necessary to do so.

Remuneration policy

The committee's policy is to ensure that the remuneration packages offered are competitive with companies of a comparable size and designed to attract, retain and motivate executives of a high calibre. The policy aims to ensure that individual rewards and incentives are aligned both with the performance of the group and the interests of the shareholders and also reflect the contributions of the individuals concerned.

Components of remuneration
Basic salary

This is a fixed cash sum, payable monthly. Salaries are reviewed annually by the committee in the light of individual performance, experience in the role and market comparisons.

Annual bonus

Executive directors participate in:

a) an annual incentive bonus linked to the actual achievement of operating profit targets set by the committee. James Leek was paid £11,917 in respect of the group's performance in 2003. Chris McDonnell was paid a bonus of £45,652 and Tony Morley was paid a bonus of £25,652 in respect of the performance of E Wood in 2003.

b) an annual value bonus scheme which rewards directors by reference to the return of value to shareholders. No bonus was paid in 2003.

No bonus counts in the calculation of pension entitlement.

Share option scheme

The group has in force an executive share option scheme for senior executives. The scheme provides a potential reward in shares for improvement in group performance reflected in the share price. The committee has not granted options for some years. Current director share options (which were granted by Meristem plc and converted in March 2000 to options in the Company) are:

Director	Number of Options at 31 December 2002 and 2003	Exercise Price	Exercise Period
C R S McDonnell	55,000	60.91p	6 May 2000 – 6 May 2007
	55,000	59.09p	23 April 2001 – 23 April 2008

Pensions

Messrs Leek, McDonnell and Morley are members of defined contribution pension schemes. The Company contributes 12% of Mr Leek's basic salary and 10.75% and 7.5% respectively of Mr McDonnell's and Mr Morley's basic salaries to their respective schemes.

Benefits in kind

Mr Leek has no benefits in kind. Messrs McDonnell and Morley are entitled to a company car allowance, private medical insurance and life cover of four times annual salary with spouse's benefit of twenty five percent of annual salary.

Service agreements

The service agreements of the executive directors provide for twelve months' notice and do not include any requirement for compensation to be paid upon termination of employment other than in respect of the appropriate period of notice.

Non-executive directors

The remuneration of the non-executive directors is set by the executive directors. They are not eligible for performance related bonuses or awards under long term incentive plans and no pension contributions are made on their behalf.
The current arrangements for non-executive directors are as follows:

	Expiry date of current arrangement
Jack Farley	14 March 2004
Magnus Mowat	14 March 2004
Peter Scott	31 December 2004

Directors' remuneration

Remuneration of the directors in the year ended 31 December 2003 was as follows:

	Salary £000	**Bonus £000**	**Benefits in Kind £000**	**2003 Total £000**	2002 Total £000	**2003 Pension £000**	2002 Pension £000
James Leek	**92**	**12**	**-**	**104**	153	**11**	11
Chris McDonnell	**88**	**46**	**11**	**145**	-	**9**	-
Tony Morley (appointed 2 July 2003)	**32**	**26**	**6**	**64**	-	**2**	-
Roger Queen (resigned 2 July 2003)	**48**	**-**	**3**	**51**	135	**6**	41
Jack Farley	**20**	**-**	**-**	**20**	45	**-**	-
Magnus Mowat	**20**	**-**	**-**	**20**	45	**-**	-
Peter Scott	**42**	**-**	**-**	**42**	45	**-**	-
	342	**84**	**20**	**446**	**423**	**28**	**52**

In addition, Roger Queen received compensation for loss of office of £80,000 (excluding Employers' National Insurance)

Jack Farley
Remuneration Committee Chairman
12 March 2004

Independent Auditors' Report to the members of Torday & Carlisle PLC

KPMG Audit Plc

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Report of the independent auditors to the members of Torday & Carlisle PLC

We have audited the financial statements on pages 15 to 38.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 9, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

12 March 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Notes	2003 Total operations £000	2002 Continuing operations £000	2002 Discontinued operations £000	2002 Combined operations £000
Turnover					
Group turnover including share of associates	2	**35,447**	33,050	5,950	39,000
Less: Share of associates turnover		**(2,840)**	(3,216)	-	(3,216)
Group turnover		**32,607**	29,834	5,950	35,784
Cost of sales		**(21,338)**	(19,990)	(4,555)	(24,545)
Gross profit		**11,269**	9,844	1,395	11,239
Distribution costs		**(3,470)**	(3,531)	(17)	(3,548)
Administrative expenses		**(5,995)**	(5,913)	(1,315)	(7,228)
Other operating income	3	**84**	202	236	438
Group operating profit		**1,888**	602	299	901
Share of operating (loss)/profit in associates		**(42)**	60	-	60
Total operating profit: Group and share of associates		**1,846**	662	299	961

	Notes	2003 Total operations £000	2002 Continuing operations £000	2002 Discontinued operations £000	2002 Combined operations £000
Analysed as:					
Total operating profit before exceptional expenses		**1,846**	1,522	849	2,371
Group exceptional administrative expenses	6	**-**	(860)	(550)	(1,410)
Total operating profit: Group and share of associates	2	**1,846**	662	299	961

	Notes	2003 Total operations £000	2002 Continuing operations £000	2002 Discontinued operations £000	2002 Combined operations £000
Profit on sale of discontinued operations	4	**-**			1,638
Profit on ordinary activities before interest and taxation		**1,846**			2,599
Interest payable and similar charges (net)	7	**(298)**			(131)
Profit on ordinary activities before taxation		**1,548**			2,468
Taxation on profit on ordinary activities	8	**(10)**			10
Profit on ordinary activities after taxation		**1,538**			2,478
Minority interest		**(146)**			(86)
Profit for the financial year		**1,392**			2,392
Dividends	10	**(138)**			(135)
Profit for the financial year after dividends		**1,254**			2,257
Earnings per share	11	**7.6p**			5.6p
Diluted earnings per share	11	**7.6p**			5.6p
Adjusted earnings per share	11	**7.6p**			5.0p
Dividends per share	10	**1.0p**			0.6p

The profit for the year in 2003 arose from continuing operations.

Consolidated and Company Balance Sheets

As at 31 December 2003

	Notes	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Fixed Assets					
Intangible assets					
Positive goodwill		1,902	2,156	-	-
Negative goodwill		(1,776)	(1,932)	-	-
	12	126	224	-	-
Tangible assets	13	5,188	5,335	11	34
Investments	14	163	262	9,721	10,921
		5,477	5,821	9,732	10,955
Current assets					
Stocks	16	3,915	4,275	-	-
Debtors	17	7,231	6,811	7,648	4,208
Investments	15	20	30	-	-
Cash at bank and in hand		531	539	-	2,382
		11,697	11,655	7,648	6,590
Creditors: Amounts falling due within one year	18	(9,797)	(9,096)	(9,277)	(8,412)
Net current assets/(liabilities)		1,900	2,559	(1,629)	(1,822)
Total assets less current liabilities		7,377	8,380	8,103	9,133
Creditors: Amounts falling due after more than one year	19	(157)	(99)	-	-
Provisions for liabilities and charges	20	-	(74)	-	(74)
Net assets	2	7,220	8,207	8,103	9,059
Represented by:					
Capital and reserves					
Called up equity share capital	21	846	1,128	846	1,128
Other reserves	22	4,029	4,029	1,171	2,371
Capital redemption reserve	22	1,410	1,128	1,410	1,128
Profit and loss account	22	771	1,810	4,676	4,432
Equity shareholders' funds		7,056	8,095	8,103	9,059
Minority interest		164	112	-	-
		7,220	8,207	8,103	9,059

The financial statements were approved by the Board of Directors on 12 March 2004 and are signed on its behalf by :

James Leek
Chairman

Tony Morley
Finance Director

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	**1,392**	2,392
Exchange differences in the re-translation of investments in subsidiary undertakings	**(21)**	(5)
Total recognised gains and losses relating to the year	**1,371**	2,387

Reconciliations of Movements in Shareholders' Funds

For the year ended 31 December 2003

	2003		2002	
	Group £000	**Company £000**	Group £000	Company £000
Profit for the financial year	**1,392**	**1,454**	2,392	841
Dividends	**(138)**	**(138)**	(135)	(135)
	1,254	**1,316**	2,257	706
Currency translation differences	**(21)**	**-**	(5)	-
Purchase of own share capital	**(2,272)**	**(2,272)**	(8,525)	(8,525)
Net decrease in shareholders' funds	**(1,039)**	**(956)**	(6,273)	(7,819)
Opening shareholders' funds	**8,095**	**9,059**	14,368	16,878
Closing shareholders' funds	**7,056**	**8,103**	8,095	9,059

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003		2002	
	£000	£000	£000	£000
Net cash inflow from operating activities (note 23)		**2,710**		1,138
Dividends received from associates		**11**		-
Returns on investments and servicing of finance				
Interest received	**21**		169	
Interest paid	**(292)**		(143)	
Interest element of finance lease rental payments	**(17)**		(58)	
Distributions to minority interests	**(94)**		(105)	
Net cash outflow from returns on investments and servicing of finance		**(382)**		(137)
Taxation		-		(57)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(752)**		(1,179)	
Sale of tangible fixed assets	**185**		168	
Sale of current asset investment	**10**		-	
Net cash outflow from capital expenditure and financial investment		**(557)**		(1,011)
Acquisitions and disposals				
Acquisition of business	-		(1,000)	
Net cash received on sale of Group companies	-		10,054	
Net cash inflow from acquisitions and disposals		-		9,054
Equity dividends paid		**(104)**		(234)
Net cash inflow before financing		**1,678**		8,753
Financing				
Purchase of own share capital	**(2,272)**		(8,525)	
Repayment of loan notes	**(151)**		(16)	
New finance leases	**134**		-	
Capital element of finance lease rental payments	**(90)**		(1,178)	
Net cash outflow from financing		**(2,379)**		(9,719)
Decrease in cash		**(701)**		(966)
Reconciliation of net debt				
Decrease in cash in the year		**(701)**		(966)
Net decrease in debt and lease financing		**107**		1,194
(Increase)/decrease in net debt from cash flows		**(594)**		228
New finance leases taken out		-		(56)
Movement in net debt in the year (note 23)		**(594)**		172
Net debt at 1 January 2003		**(1,787)**		(1,959)
Net debt at 31 December 2003		**(2,381)**		(1,787)

Notes on Financial Statements

For the year ended 31 December 2003

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. As disclosed in note 12, in order to give a true and fair view, this has led to a departure from the requirements of the Companies Act in respect of the treatment of goodwill arising on the acquisition of Meristem plc.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2003, unless otherwise stated. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

(c) Goodwill and negative goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 "Goodwill and Intangible Assets" was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation and business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Negative goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill).

In the Company's financial statements, investments in subsidiary undertakings and associates are stated at cost less amounts written off.

(d) Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	20-50 years
Plant and machinery	4-20 years

No depreciation is provided on freehold land.

1. ACCOUNTING POLICIES (continued)

(e) Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.
The assets and liabilities of overseas subsidiary undertakings and associated undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

(f) Government grants
Capital based government grants are included within deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

(g) Deferred income
Customer contributions to the cost of fixed assets and related expenditure are credited to deferred income. These amounts are released to the profit and loss account over the expected useful lives of the assets or products to which they relate.

(h) Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

(i) Post retirement benefits
The group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

(j) Research and development expenditure
Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

(k) Stocks
Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

(l) Taxation
The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(m) Turnover
Turnover comprises the sales value of goods supplied and services provided to third parties exclusive of value added tax. Sales are recognised when goods are invoiced and delivered to customers.

(n) Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

(o) Financial instruments
The group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Derivative instruments utilised by the group include interest rate and currency swaps, forward rate agreements and forward currency contracts. Forward currency contracts are accounted for as hedges if they meet the criteria as a hedge, with the instrument's impact on profit deferred until the underlying transaction is recognised in the profit and loss account. All other exchange differences are dealt with in the profit and loss account.

Notes on Financial Statements

For the year ended 31 December 2003

2. SEGMENTAL AND GEOGRAPHICAL ANALYSIS

Analysis by class of business, all of which principally arises in the United Kingdom, as defined in the accompanying Chairman's statement, is as follows:

	Turnover		Operating profit		Net assets	
	2003	2002	**2003**	2002	**2003**	2002
	£000	£000	**£000**	£000	**£000**	£000
Continuing:						
E Wood: Specialist surface coatings	**20,862**	20,073	**2,953**	2,185	**5,341**	5,550
Solvitol: Formulated chemicals	**11,745**	9,761	**(265)**	(96)	**5,063**	5,088
LD Group: Engineering	**2,840**	3,216	**(13)**	56	**116**	215
	35,447	33,050	**2,675**	2,145	**10,520**	10,853
Central costs/liabilities	-	-	**(731)**	(692)	**(919)**	(859)
Sub total	**35,447**	33,050	**1,944**	1,453	**9,601**	9,994
Discontinued:						
CSM: Mineral processing	-	5,950	-	849	-	-
Sub total	-	5,950	-	849	-	-
Net debt	-	-	-	-	**(2,381)**	(1,787)
Total	**35,447**	39,000	**1,944**	2,302	**7,220**	8,207
Amortisation of goodwill						
Nilco (Solvitol business)			**(170)**	-		
Meristem (Head Office)			**72**	69		
Total before exceptionals			**1,846**	2,371		
Exceptional expenses:						
Group exceptional administrative expenses						
Continuing			-	(860)		
Discontinued			-	(550)		
			-	(1,410)		
Total operating profit			**1,846**	961		

Reconciliation of total operating profit to profit on ordinary activities before taxation

	2003	2002
Total operating profit	**1,846**	961
Profit on sale of subsidiary	-	1,638
Interest payable and similar charges	**(298)**	(131)
Profit on ordinary activities before taxation	**1,548**	2,468

2. SEGMENTAL AND GEOGRAPHICAL ANALYSIS (continued)

Turnover to third parties analysed by destination is as follows:

	Subsidiary operations £000	Associates £000	2003 Total £000
United Kingdom	21,405	1,871	23,276
Rest of Europe	3,916	250	4,166
Rest of World	7,286	719	8,005
	32,607	2,840	35,447

	Subsidiary operations £000	Associates £000	2002 Total £000
United Kingdom	20,296	1,732	22,028
Rest of Europe	7,558	244	7,802
Rest of World	7,930	1,240	9,170
	35,784	3,216	39,000

The geographical split of turnover can be split between continuing and discontinued operations as follows:

Continuing operations

	Subsidiary operations £000	Associates £000	2003 Total £000	2002 Total £000
United Kingdom	21,405	1,871	23,276	20,256
Rest of Europe	3,916	250	4,166	3,897
Rest of World	7,286	719	8,005	8,897
	32,607	2,840	35,447	33,050

Discontinued operations

	Subsidiary operations £000	Associates £000	2003 Total £000	2002 Total £000
United Kingdom	-	-	-	1,772
Rest of Europe	-	-	-	3,905
Rest of World	-	-	-	273
	-	-	-	5,950

3. OTHER OPERATING INCOME

	2003 £000	2002 £000
Deferred income and government grant release	-	237
Other income	84	201
	84	438

Notes on Financial Statements

For the year ended 31 December 2003

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging/(crediting):

	2003 £000	**2003 £000**	2002 £000	2002 £000
Staff costs (see Note 5)		**7,068**		7,569
Depreciation (see Note 13)				
Owned assets		**685**		923
Assets held under finance leases		**61**		168
Amortisation:				
Negative goodwill in subsidiaries (see Note 12)	**(156)**		(152)	
Goodwill in subsidiaries (see Note 12)	**84**		84	
Goodwill in associates (see Note 14)	**4**		4	
Other amortisation (see Note 12)	**170**		27	
		102		(37)
(Profit)/loss on sale of tangible fixed assets		**(32)**		2
Operating lease rentals:				
Plant and machinery		**11**		25
Other operating leases		**101**		112
Auditors' remuneration:				
Audit – Group		**35**		33
Audit – Company		**14**		14
Fees paid to auditors for other services		**54**		178
Research and development expenditure		**439**		416
Government grants released		**-**		(7)
Release of deferred income		**-**		(230)

Fees paid to auditors for other services of £54,000 comprised further assurance services of £5,000 and tax services of £49,000. In 2002 fees paid to auditors for other services comprised £10,000 to KPMG LLP for tax services and £168,000 to the former auditors, PricewaterhouseCoopers for further assurance and tax services.

The profit on sale of discontinued operations of £1,638,000 in 2002 arose on the disposal of CSM Limited on 23 May 2002.

5. DIRECTORS AND EMPLOYEES

(a) Employees

Staff costs and average number of employees have been as follows

	2003 £000	2002 £000
Wages and salaries	**6,220**	6,734
Social security costs	**627**	603
Other pension costs	**221**	232
	7,068	7,569
Average number of employees	**290**	324

5. **DIRECTORS AND EMPLOYEES** (continued)

(b) **Directors**

	2003 **£000**	2002 £000
Directors' emoluments	**446**	435
Company contributions to money purchase pension schemes	**28**	52
Compensation for loss of office	**80**	-
	554	487

Retirement benefits are accruing to three directors (2002: two) under money purchase pension schemes.

The emoluments of the highest paid director were £145,000 (2002: £153,000) and company pension contributions of £9,000 (2002: £11,000) were made to a money purchase pension scheme on his behalf. The emoluments of Chris McDonnell and Tony Morley are borne by E Wood Limited in respect of their executive services to that company.

Further information on directors' remuneration can be found in the Remuneration Report on pages 12 and 13.

6. **EXCEPTIONAL ADMINISTRATIVE EXPENSES**

There were no exceptional expenses charged in 2003.

Exceptional expenses charged in the previous year are analysed as follows:

	Continuing operations £000	Discontinued operations £000	2002 Total £000
Management bonuses and termination costs on sale of CSM (see note a.)	140	550	690
Settlement of onerous property lease at Wembley (see note b.)	415	-	415
Costs associated with the Capital Reduction of £6.993 million (see note c.)	305	-	305
	860	550	1,410

a. The management bonuses and termination costs of £690,000 include £190,000 of central costs of which £140,000 represented the cost of management bonuses.

b. The charge in relation to the settlement of the onerous property lease at Wembley represented a settlement of £600,000 plus costs of £15,000 less an existing provision of £200,000.

c. The costs associated with the Capital Reduction include £228,000 in respect of external advisory, legal and publication costs plus £77,000 representing the cost of ex-gratia bonuses paid to the three Non-Executive Directors.

These exceptional expenses had no tax impact.

7. **INTEREST PAYABLE AND SIMILAR CHARGES (NET)**

	2003 **£000**	2002 £000
Interest payable on loans and borrowings:		
On bank loans and borrowings	**266**	174
On finance leases and hire purchase contracts	**17**	58
Unwinding of discounts	**-**	25
	283	257
Interest receivable and similar income	**(21)**	(169)
Group share of interest payable in associates	**36**	43
	298	131

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For the year ended 31 December 2003

8. TAXATION

Analysis of charge/(credit):

	2003 £000	2002 £000
United Kingdom corporation taxation		
Current tax on income for the period	-	-
Share of associates' tax	10	(10)
Total current taxation	10	(10)
Deferred taxation	-	-
Tax on profit on ordinary activities	10	(10)

Factors affecting the tax charge/(credit) for the current year

The current tax charge/(credit) is lower (2002: lower) than the standard rate of corporation tax in the United Kingdom, 30% (2002: 30%). The differences are explained below:

	2003 £000	2002 £000
Current taxation reconciliation:		
Profit on ordinary activities before tax	1,548	2,468
Current tax at 30% (2002: 30%)	464	740
Effects of:		
Net (income not chargeable)/expenses not deductible for tax purposes	(7)	181
Capital allowances for period in excess of depreciation	(217)	(201)
Short term timing differences	24	(8)
Net utilisation of tax losses	(254)	(5)
Profit on sale of business not taxable	-	(717)
Total current taxation charge/(credit)	10	(10)

Factors that may affect future tax charges

The group and Company also has unprovided deferred tax assets as shown below. These assets have not been recognised as their recovery cannot be foreseen with reasonable certainty.

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Difference between accumulated depreciation and amortisation and capital allowances	205	300	1	1
Other timing differences	37	60	-	-
Tax effects of trading losses	1,488	1,916	171	279
Deferred tax assets	1,730	2,276	172	280

In addition, capital losses available in the group are estimated at (gross) £58,000,000 (2002: £58,000,000) and in the company at £1,327,000 (2002: £1,327,000).

9. TORDAY & CARLISLE PLC PROFIT AND LOSS ACCOUNT

Torday & Carlisle PLC has not presented its own profit and loss account, as permitted by Section 230 (1) of the Companies Act 1985. The amount of the consolidated profit after taxation for the financial year dealt with in the accounts of the Company is £1,454,000 (2002: £841,000).

10. DIVIDENDS PROPOSED

A final dividend of 1.0p per share has been proposed for 2003 (2002: 0.6p) amounting to £169,000 (2002: £135,000). Of the dividends proposed for the year ended 31 December 2002, an amount of £31,000 was not paid because the shares were re-purchased and cancelled before the payment date. This amount has been written back in 2003 resulting in a net dividend in the 2003 profit and loss account of £138,000.

11. EARNINGS PER SHARE

The calculation of basic earnings per share and diluted earnings per share is based on the profit for the financial year of £1,392,000 (2002: £2,392,000). Basic earnings per share is calculated based on 18,242,594 ordinary shares, being the weighted average number of ordinary shares in issue (2002: 43,003,973 ordinary shares). Diluted earnings per share is calculated based on 18,258,715 ordinary shares, being the weighted average number of ordinary shares in issue after adjusting for the effect of potentially dilutive share options issued under the group's share option schemes (2002: 43,003,973 ordinary shares). Although certain of the group's share options in issue are dilutive in 2003, they have no material effect on the earnings per share disclosed.

The adjusted earnings per share is calculated on the same basis as the basic earnings per share for the year ending 31 December 2003 as there are no adjustments in the year for exceptional items or the sale of operations. The reconciliation of the profit used in calculating the adjusted earnings per share is set out in the table below:

	2003 £000	**Pence per share**	2002 £000	Pence per share
Profit for the year	**1,392**	**7.6**	2,392	5.6
Exceptional items	-	-	1,410	3.2
Profit on sale of operations	-	-	(1,638)	(3.8)
Net tax effect of adjustments	-	-	-	-
Adjusted profit for the year	**1,392**	**7.6**	2,164	5.0

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For the year ended 31 December 2003

12. INTANGIBLE ASSETS

Movements during the year have been as follows:

	Positive Goodwill £000	Negative Goodwill £000	Group Total £000
Cost			
At 1 January 2003 and 31 December 2003	**2,537**	**(2,335)**	**202**
Amortisation			
At 1 January 2003	381	(403)	(22)
Charge/(credit) for the year	254	(156)	98
At 31 December 2003	**635**	**(559)**	**76**
Net book value			
At 31 December 2003	**1,902**	**(1,776)**	**126**
At 31 December 2002	2,156	(1,932)	224

Positive goodwill has arisen: (a) on the group's purchase in 1998 of the original 28.9% investment in Meristem plc and is written off to the profit and loss account over 20 years; and (b) from the purchase of the Nilco brands by Solvitol in 2002 amounting to £850,000 and is being written off to the profit and loss account over 5 years.

Prior to becoming a subsidiary undertaking, Meristem plc was accounted for as an associated undertaking. In accordance with FRS 2 "Accounting for Subsidiary Undertakings" and in order to give a true and fair view, purchased goodwill has been calculated as the sum of the goodwill arising on each purchase of shares in Meristem, being the difference at the date of each purchase between the fair value of the consideration given and the fair value of the assets and liabilities attributable to the interest purchased. This represents a departure from the Companies Act 1985, under which goodwill is calculated as the difference between cost and the fair value at the date that Meristem became a subsidiary undertaking. The statutory method would not give a true and fair view because it would result in the group's share of Meristem's retained reserves, during the period it was an associated undertaking, being recharacterised as goodwill. The effect of this departure was to increase the amount of negative goodwill by £471,000 and decrease retained profits by £471,000.

The negative goodwill is being written off over 15 years in line with the estimated life of the non-monetary assets acquired.

The Company has no goodwill.

13. TANGIBLE ASSETS

Group	Freehold land & buildings £000	Plant & machinery £000	Total £000
Cost			
At 1 January 2003	2,946	6,618	9,564
Additions	228	524	752
Disposals	-	(579)	(579)
At 31 December 2003	**3,174**	**6,563**	**9,737**
Depreciation			
At 1 January 2003	465	3,764	4,229
Charge for the year	78	668	746
Disposals	-	(426)	(426)
At 31 December 2003	**543**	**4,006**	**4,549**
Net book value			
At 31 December 2003	**2,631**	**2,557**	**5,188**
At 31 December 2002	2,481	2,854	5,335
Depreciation in 2002	78	1,013	1,091

Included in the total net book value of plant and machinery is £216,000 (2002: £152,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on assets held under finance leases was £61,000 (2002: £168,000).

Company	Plant & machinery £000
Cost	
At 1 January 2003	49
Disposals	(28)
At 31 December 2003	**21**
Depreciation	
At 1 January 2003	15
Charge for the year	10
Disposals	(15)
At 31 December 2003	**10**
Net book value	
At 31 December 2003	**11**
At 31 December 2002	34
Depreciation in 2002	13

Notes on Financial Statements

For the year ended 31 December 2003

14. FIXED ASSET INVESTMENTS

Group	**2003** **£000**	2002 £000
Interest in associated undertakings	**163**	262

A list of the group's interests in associated undertakings is shown on page 39.

Cost	**£000**
At 1 January 2003	
Goodwill	**68**
Other net assets	**210**
	278
Share of losses after taxation	**(95)**
At 31 December 2003	**183**
Amounts written off goodwill	
At 1 January 2003	**16**
Amortisation	**4**
At 31 December 2003	**20**
Net book value	
At 31 December 2003	
Goodwill	**48**
Other net assets	**115**
	163
At 31 December 2002	
Goodwill	52
Other net assets	210
	262

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For the year ended 31 December 2003

14. FIXED ASSET INVESTMENTS (continued)

The LD Group PLC
The LD Group PLC, an associated undertaking, has an accounting year end of 31 July 2003 but for the purposes of the Torday & Carlisle PLC group consolidation, accounts have been drawn up for the twelve months ended 31 December 2003. The group's equity share of the turnover and net assets for the year ended 31 December 2003 are as follows:

	2003 £000	2003 £000	2002 £000	2002 £000
Turnover		2,840		3,216
Share of assets				
Share of fixed assets	213		233	
Share of current assets	908		1,090	
		1,121		1,323
Share of liabilities				
Liabilities due within one year	(820)		(865)	
Liabilities due after one year	(234)		(296)	
		(1,054)		(1,161)
Share of net assets		67		162

Company
Investments comprise the shares in subsidiary undertakings as shown on page 39.

	£000
Cost	
At 1 January 2003 and 31 December 2003	12,921
Provisions	
At 1 January 2003	2,000
Impairment losses	1,200
At 31 December 2003	3,200
Net book value	
At 31 December 2003	9,721
At 1 January 2003	10,921

15. CURRENT ASSET INVESTMENTS

	Group	
	2003 £000	2002 £000
Cost	20	30

The investments relate to 4 holdings of gilt edged securities for investment purposes, which are redeemable at par between 2001 and 2004. The investments are shown at the lower of cost or net realisable value.

The Company has no current asset investments.

Notes on Financial Statements

For the year ended 31 December 2003

16. STOCKS

	Group	
	2003	2002
	£000	£000
Raw materials and consumables	**1,779**	1,994
Work in progress	**27**	36
Finished goods and goods for resale	**2,109**	2,245
	3,915	4,275

The Company has no stocks.

17. DEBTORS

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Trade debtors	**6,322**	5,668	**-**	12
Amounts owed by group undertakings	**-**	-	**7,415**	4,030
Amounts owed by associated undertakings	**229**	213	**24**	15
Other debtors	**148**	852	**6**	142
Prepayments and accrued income	**532**	78	**203**	9
	7,231	6,811	**7,648**	4,208

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Bank loans and overdrafts (secured)	**2,313**	1,620	**4,609**	3,250
Loan notes	**388**	539	**-**	-
Trade creditors	**4,543**	4,722	**2**	46
Amounts owed to group undertakings	**-**	-	**4,222**	4,747
Other creditors	**976**	1,057	**-**	-
Corporation tax	**142**	142	**47**	47
Other taxes and social security	**679**	461	**8**	10
Accruals and deferred income	**533**	352	**220**	177
Obligations under finance lease and hire purchase contracts (see Note 19)	**54**	68	**-**	-
Proposed dividend	**169**	135	**169**	135
	9,797	9,096	**9,277**	8,412

The bank loans and overdrafts are secured by way of fixed and floating charges over the assets of the group.

	Unsecured Loan Stock £000
Loan notes outstanding comprise:	
Acquired following the takeover of Meristem plc	539
Redeemed during year	(151)
	388

Loan notes amounting to £2,473,000 were issued to the Vendors of Colin Stewart Minchem Limited as part of the acquisition consideration in 1994. Included within cash balances is an amount of £388,000 which is held as security against a bank guarantee given in respect of these loans. The loan stock carries interest at variable rates and is redeemable in cash on 31 March 2004 or earlier at the option of the holder.

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group	
	2003	2002
	£000	£000
Obligations under finance lease and hire purchase contracts	**157**	99

The group has total bank facilities of £6 million comprising two £3 million revolving credit facilities provided by HSBC Bank plc and Barclays Bank PLC for a fixed term to 31 July 2004.

The bank borrowings and net obligations under finance lease and hire purchase contracts are repayable as follows:

	Finance Lease & Hire Purchase Contracts		**Bank Overdrafts**	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Within 2 years	**135**	111	**2,313**	1,620
Within 2-5 years	**76**	56	**-**	-
	211	167	**2,313**	1,620
Within 1 year	**(54)**	(68)	**(2,313)**	(1,620)
	157	99	**-**	-

The finance lease and hire purchase obligations are secured on the assets to which they relate.

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Provision for legal and defence costs	**-**	74	**-**	74

The movement during the year was as follows:	**Group & Company**
	£000
Balance at 1 January 2003	74
Release of provision	(74)
Balance at 31 December 2003	-

Notes on Financial Statements

For the year ended 31 December 2003

21. CALLED UP EQUITY SHARE CAPITAL

	5p Ordinary shares	
	2003	2002
	£000	£000
Allotted, called up and fully paid	**846**	1,128
Authorised	**4,350**	4,350

As noted in the Financial Review, the Company repurchased 5,630,241 ordinary shares for a total consideration of £2.272 million (inclusive of costs). The nominal value of these shares was transferred to the capital redemption reserve as shown in note 22.

Of the unissued shares, 1,722,000 are reserved for the share option schemes approved by shareholders on 23 May 1996 and 23 May 1998. At 31 December 2003, options under the schemes were outstanding in respect of 435,500 ordinary shares and are first exercisable at dates between May 1997 and May 2008 with prices ranging from 35.9p to 81.18p.

On the 21 January 2004, following the exercise of a share option the issued share capital increased by 111,000 new 5 pence ordinary shares, allotted at a price of 35.90 pence per share.

22. RESERVES

	Other Reserves £000	Capital Redemption Reserve £000	Profit & Loss Account £000
Group			
At 1 January 2003	4,029	1,128	1,810
Profit for the financial year	-	-	1,254
Purchase of own share capital	-	282	(2,272)
Exchange loss	-	-	(21)
At 31 December 2003	**4,029**	**1,410**	**771**
Company			
At 1 January 2003	2,371	1,128	4,432
Profit for the financial year	-	-	1,316
Purchase of own share capital	-	282	(2,272)
Transfer	(1,200)	-	1,200
At 31 December 2003	**1,171**	**1,410**	**4,676**

Other reserves of the Company at the beginning of the year included £2.029 million eligible for merger relief, which arose in March 2000 on the share-for-share acquisition of Meristem plc. A transfer of £1.2 million has been made from this reserve to the profit and loss account to offset the provision made against the Company's investment in Meristem plc (note 14). The balance of £0.829m remains eligible for merger relief.

23. CASH FLOW STATEMENT

Reconciliation of group operating profit to net cash inflow from operating activities

	2003 £000	2002 £000
Group operating profit	**1,888**	901
Group exceptional administrative expenses	**-**	1,410
Group operating profit before exceptional expenses	**1,888**	2,311
Depreciation	**746**	1,091
Amortisation of goodwill	**102**	(37)
Deferred income release	**-**	(237)
Profit on sale of tangible assets	**(32)**	-
Decrease/(increase) in stocks	**360**	(743)
(Increase)/decrease in debtors	**(445)**	579
Increase in creditors and provisions	**91**	334
Net cash inflow from operating activities before exceptionals	**2,710**	3,298
Exceptional items:		
Management bonuses & termination costs on sale of subsidiary	**-**	(690)
Section 338 tax settlement	**-**	(550)
Settlement of onerous property lease at Wembley	**-**	(615)
Costs associated with the Capital Reduction of £6.993 million	**-**	(305)
Net cash inflow from operating activities	**2,710**	1,138

Analysis of movement in net debt

	At 1 January 2003 £000	Cash Flow £000	**At 31 December 2003 £000**
Cash at bank and in hand	539	(8)	**531**
Overdrafts	(1,620)	(693)	**(2,313)**
	(1,081)	(701)	**(1,782)**
Loan notes	(539)	151	**(388)**
Finance leases	(167)	(44)	**(211)**
	(706)	107	**(599)**
Total	(1,787)	(594)	**(2,381)**

24. CONTINGENT LIABILITIES

The group has given a bank guarantee of £133,333 (2002: £133,333) in respect of its associate, The LD Group plc.

The accounts of The LD Group plc, a 50% associate company, disclose the following contingent liability;
"A claim has been made against the company's subsidiary, Lincoln Diesel plc, alleging passing off of engine parts for specific diesel engines. The claimant is seeking damages or an account of profits. No court proceedings have been initiated and the Directors are resisting the claim. The Directors consider no material amount will be payable by the company or the group as a result of the claim."

There are other contingent liabilities in respect of claims arising in the normal course of business of the group. The directors do not consider that any substantial liability will arise from such claims.

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25. FINANCIAL INSTRUMENTS

The group's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade debtors, trade creditors etc, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The group does not enter into any significant derivatives transactions. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The group has taken advantage of the exemptions available under FRS 13 not to provide numerical disclosures in relation to short term debtors and creditors.

The main risks arising from the group's financial instruments are: interest rate risk, liquidity risk, and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year.

Interest rate risk

The group finances its operations through a mixture of retained profits and bank borrowings. The group borrows in the desired currencies at fixed and floating rates of interest in order to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations.

Liquidity risk

As regards liquidity, the group's policy has, throughout the year, been to maintain a mix of short, medium and long term facilities. Short term flexibility is achieved by a revolving credit arrangement. It is, in addition, the group's policy to maintain undrawn agreed borrowing facilities in order to provide flexibility in the management of the group's liquidity. At the year end the group had agreed facilities of £6,000,000 (2002: £6,000,000) with two banks.

Foreign currency risk

About 12 percent of the sales of the group's continuing businesses are to customers in Continental Europe and a further 23 percent are to customers in the Rest of the World. These sales are mainly priced in Sterling and Euros. The group's policy is to eliminate currency exposures on significant sales at the time of sale, through forward foreign currency contracts. Where a subsidiary buys raw materials from and sells the finished goods to Continental Europe, these transactions are in Euros. This provides an element of natural hedge. All the other sales of the UK businesses are denominated in Sterling.

Interest rate risk profile of financial assets

	Total Assets 2003 £000	**Floating Rate Assets 2003 £000**	**Fixed Rate Assets 2003 £000**
Currency			
Sterling	**408**	**408**	-
US Dollars	**123**	**123**	-
	531	**531**	-

	Total Assets 2002 £000	Floating Rate Assets 2002 £000	Fixed Rate Assets 2002 £000
Currency			
Sterling	539	539	-

25. FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial liabilities

	Total Liabilities 2003 £000	**Floating Rate Liabilities 2003 £000**	**Fixed Rate Liabilities 2003 £000**
Currency			
Sterling	**2,378**	**2,197**	**181**
US Dollars	**279**	**249**	**30**
Euros	**255**	**255**	**-**
	2,912	**2,701**	**211**

	Total Liabilities 2002 £000	Floating Rate Liabilities 2002 £000	Fixed Rate Liabilities 2002 £000
Currency			
Sterling	1,817	1,680	137
US Dollars	386	356	30
Euros	123	123	-
	2,326	2,159	167

Fixed Rate Liabilities

	2003		2002	
	Weighted Average Interest Rate %	**Weighted Average Fixed Rate Period Years**	Weighted Average Interest Rate %	Weighted Average Fixed Rate Period Years
Currency				
Sterling	**7.2**	**2**	7.6	2
US Dollar	**7.4**	**2**	-	-

Total liabilities comprise bank overdrafts, loan notes and finance leases as detailed in Notes 18 and 19.

The floating rate financial liabilities comprise mainly bank loans and overdrafts that bear interest at rates based on the rates set by the UK and European Central Bank. Fixed rate liabilities include the majority of the group's obligations under finance leases and hire purchase contracts.

The sterling balances include £388,000 which is held as security against a bank guarantee given in respect of loan notes as explained in note 18.

Currency risk of financial assets and liabilities

The group's objectives in managing the structural currency exposures arising from its net investment overseas are to maintain a low cost of borrowings and to retain some potential for currency related appreciation while partially hedging against currency depreciation.

The only exposure, at 31 December 2003, being the group share of net assets in Thortex America Incorporated, is as detailed below:

	2003		2002	
	Net Assets	**Recognised Gain/(loss)**	Net Assets	Recognised Gain/(loss)
Currency	**£000**	**£000**	£000	£000
US Dollar – Thortex	**364**	**-**	249	-

25. FINANCIAL INSTRUMENTS (continued)

The group also has non-structural currency exposures ie. those exposures arising from sales and purchases by group companies in currencies other than that company's functional currency. These exposures give rise to net currency gains/losses recognised in the profit and loss account, and represent monetary assets and liabilities of the group that were not denominated in the functional currency of the company involved.

As at 31 December 2003 and 2002 the significant exposures in this respect were bank, debtors and creditors within the UK operating entities and were as follows:

	2003 Overdraft £000	**2003 Debtors £000**	**2003 Creditors £000**	2002 Overdraft £000	2002 Debtors £000	2002 Creditors £000
Currency						
French Francs	-	-	-	-	-	1
Euro	255	433	7	123	575	-
US Dollar	249	359	3	356	442	1
	504	792	10	479	1,017	2

Maturity of financial liabilities and undrawn borrowing facilities
The maturity of the group's financial liabilities at 31 December 2003 was as follows:

	2003 £000	2002 £000
In one year or less, or on demand	2,755	2,227
In more than one year but not more than two years	81	43
In more than two years but not more than five years	76	56
	2,912	2,326

The group has various undrawn committed borrowing facilities. The undrawn facilities available at 31 December 2003 in respect of which all conditions precedent had been met were as follows:

	2003 £000	2002 £000
Expiring in one year or less	3,687	4,265

Fair values of financial assets and liabilities
At 31 December 2003, the fair values of financial assets and liabilities are not materially different from the book value.

Hedges
At 31 December 2003 the group had no material hedging instruments and had not undertaken any significant transactions involving hedging instruments throughout the year.

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26. OPERATING LEASE COMMITMENTS

The annual rental commitments at 31 December 2003 in respect of non-cancellable operating leases were as follows:

	Property		Equipment	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Group				
Operating leases which expire:				
Within one year	-	3	**10**	50
Between two and five years	-	-	**87**	99
After more than five years	**35**	311	-	-
	35	314	**97**	149
Company				
Operating leases which expire:				
Within one year	-	3	-	-

27. PENSION COSTS

The group operates the following pension schemes in the UK:

i) The Torday & Carlisle PLC Retirement and Death Benefits Scheme which is a defined contribution scheme, the costs of which are charged directly to the profit and loss account.

ii) Solvitol Limited and E Wood Limited each maintain company personal pension plans to which each company pays a defined contribution, the costs of which are charged directly to the profit and loss account.

iii) The LD Group PLC operates The LD Group Pension Scheme which is a defined contribution scheme. The costs are charged directly to the profit and loss account.

28. RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

	Amount		Balance outstanding at 31 December	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Sales				
Torday & Carlisle group to associated undertakings	**496**	581	**205**	213
Management charges				
Associated undertakings from Torday & Carlisle group	**41**	40	**24**	-
Dividends				
Associated undertakings to Torday & Carlisle group	**11**	9	-	-

The group has taken advantage of the FRS 8 exemptions not to disclose balances between group entities that have been eliminated on consolidation.

Subsidiary and Associated Undertakings

For the year ended 31 December 2003

The Company's principal subsidiaries and associates at 31 December 2003 and at the date of this report are detailed below:

Subsidiaries	Country of Incorporation and Operation	Interest	Main activities
T&C Industrial Holdings Ltd	England	100%	Holding company
Meristem plc	England	100%	Holding company
Solvitol Limited *	England	100%	Formulated chemical products
E Wood Limited *	England	100%	Specialist surface coatings
Thortex Specialist Services Limited*	England	100%	Construction contract management
Meristem Financial Limited *	England	100%	Investment and finance
Thortex America Inc *	USA	55%	Industrial painting contractor
Associates			
The LD Group PLC *	England	50%	Diesel engine components
Lotum SA *	Spain	25%	Industrial painting contractor
Thortex Italia *	Italy	26%	Industrial painting contractor

* Interest held by subsidiary undertaking.

The results of all of the above listed subsidiary and associated undertakings are included within the consolidated financial statements. The financial year end of all of the above companies is 31 December, with the exception of The LD Group PLC which has a 31 July year end. In addition the Company indirectly owns 100% of a further 27 dormant companies and 4 non trading sub-holding companies. A full list of group companies will be included in the Company's annual return.

Analysis of Shareholders

As at 12 March 2004

	Shareholders		Shares Held	
	Number	%	Number	%
Individuals holding shares in the ranges:				
0-100	253	15.06	13,614	0.08
101-250	339	20.18	54,723	0.32
251-500	229	13.63	85,543	0.50
501-1,000	259	15.41	180,042	1.06
1,001-2,500	275	16.37	437,878	2.57
2,501-99,999	300	17.86	3,798,400	22.29
100,000 and over *	25	1.49	12,468,324	73.18
Totals	1,680	100.00	17,038,524	100.00

* Included within these shareholders is the single Meristem trustee account for those Meristem shareholders whose shares were compulsory acquired following the offer by the Company in February 2000. The number of individual holdings within this trustee account is 338.